

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC PRIORITY 4331

INFO AMEMBASSY ANKARA

C O N F I D E N T I A L TEHRAN 11097

E.O. 11652: GDS

TAGS: ECON; EAID; EFIN; TU; IR

SUBJECT: CERP 0102-IRANIAN 1975-1976 FOREIGN ASSISTANCE

WILL CREATE BALANCE OF PAYMENTS DEFICIT

REFS: A) EAL; B) TEHRAN 10436; C) TEHRAN 10910(NOTAL)

1. SUMMARY: IRAN'S FOREIGN ASSISTANCE PROJECTION FOR THE CURRENT IRANIAN YEAR HAS RISEN TO \$3.5 BILLION DUE TO A REPORTED REQUEST BY TURKEY FOR \$600 MILLION. ACCORDING TO THE CENTRAL BANK OF IRAN(CBI) FOREIGN ASSISTANCE WILL BE THE MAJOR CONTRIBUTOR TO AN ANTICIPATED \$4 BILLION CAPITAL ACCOUNT DEFICIT AND AN EXTERNAL ACCOUNT BASIC BALANCE DEFICIT OF \$1.76 BILLION, ALL OF WHICH WILL BE FINANCED BY DRAWDOWN OF RESERVES. GOI OFFICIALS BELIEVE IRAN WILL REMAIN A NET LENDER FOR AT LEAST THE NEXT TWO YEARS. THE IMF TEAM, WHICH HAS JUST CONCLUDED ITS ANNUAL CONSULTATIONS WITH THE GOI, DIFFERS SLIGHTLY WITH THE CBI'S FORECAST, BELIEVING THE DEFICIT WILL BE ON THE ORDER OF HALF A BILLION DOLLARS(\$500 MILLION), BUT IT MAY NOT HAVE KNOWN OF THE RECENT TURKISH REQUEST. THE IMF TEAM'S INITIAL ESTIMATE OF GNP GROWTH FOR THIS IRANIAN YEAR IS ABOUT 26 PERCENT, SOME 14 PERCENT IN CONSTANT PRICES.

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THIS COMPARES WITH THE CBI'S ESTIMATE OF 16 PERCENT IN CONSTANT

TERMS AND A LOW FOUR OF FIVE PERCENT PRICE FACTOR. END SUMMARY.

2. THE EMBASSY, IN REF C, REPORTED THAT THE SHAH SAID PRIVATELY THE DISBURSEMENTS AGAINST IRAN'S FOREIGN ASSISTANCE COMMITMENTS FOR THIS IRANIAN YEAR(ENDING MARCH 20,1976) WOULD BE HONORED ALTHOUGH DOMESTIC PUBLIC EXPENDITURESE WERE BEING CUT. IN A NOVEMBER 12 DISCUSSION WITH DR. SHAHPUR SHIRAZI, DIRECTOR-GENERAL OF THE CENTRAL BANK'S INTERNATIONAL AFFAIRS DEPARTMENT, EMBOFF WAS TOLD THE FORECAST FOR FOREIGN ASSISTANCE(GRANTS, LOANS, AND INVESTMENTS) THIS IRANIAN YEAR IS \$3.5 BILLION. WHEN ASKED HOW IT WOULD INCREASE SO MUCH FROM THE BUDGET FIGURE OF \$2.6 BILLION, HE SAID IRAN WOULD RESPOND TO TURKEY'S REQUEST FOR \$600 MILLION THIS YEAR AS AN ADVANCE ON THE RECENTLY SIGNED \$1.2 BILLION IRAN/TURKEY AGREEMENT (NOTE PARA 4, REF B).

3. SHIRAZI PROVIDED SUMMARY DATA FROM THE BANK'S BALANCE OF PAYMENTS FORECAST FOR THIS IRANIAN YEAR(1354). THEY FOLLOW IN BILLIONS OF DOLLARS AND IN THE FORMAT PROVIDED BY SHARIZI:  
CURRENT ACCOUNT

NET NON-OIL GOODS AND SERVICES -18.5  
(OF WHICH \$17 IS IMPORTS CIF--  
\$7.56 IS PRIVATE SECTOR-- AND  
\$0.78 REPRESENTS MERCHANDISE EXPORTS)

RECEIPTS FROM OIL EXPORTS PLUS 20.5

BALANCE PLUS 2.0

CAPITAL ACCOUNT

PUBLIC LOANS AND INVESTMENT -3.5  
(I.E., FOREIGN ASSISTANCE  
REPAYMENTS -0.83  
LONG-TERM DRAWINGS(INFLOWS) PLUS 0.3  
BALANCE -4.03

ERRORS AND OMISSIONS PLUS 0.27  
BASIC BALANCE -2.03

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CHANGE IN RESERVES(DRAWDOWN) -1.76

4. SHORT-RUN ECONOMIC ESTIMATES ARE PARTICULARLY HAZARDOUS THIS YEAR, BUT IN GENERAL THOSE OF THE CBI APPEAR REASONABLE: EMBASSY COMMENTS FOLLOW: BOTH THE IMF ANNUAL CONSULTATION TEAM (COMPLETED A THREE WEEK VISIT NOVEMBER 9) AND THE EMBASSY HAVE BEEN TOLD BY THE STATISTICAL DEPARTMENT OF THE CBI THAT TOTAL MERCHANDISE IMPORT(CIF) GROWTH IS PROJECTED AT 70 PERCENT THIS

HEAR, FOR A TOTAL OF \$17 BILLION. THIS HIGH GROWTH RATE IN IMPORTS COMPARES WITH THE CBI'S EARLIER ESTIMATE OF 50 TO 60 PERCENT BUT IS CONSIDERABLY LOWER THAN THE 122 PERCENT GROWTH RATE FOR THE FIRST SEVEN MONTHS REVEALED BY PRELIMINARY CUSTOMS REPORTS WHICH ARE ON A TRANSACTIONS BASIS AND SUBJECT TO A FARILY HIGH MARGIN OF EROR. (THE CBI PROJECTS PRIVATE SECTOR IMPORT GROWTH NEXT YEAR AT ABOUT 20 PERCENT AND WILL NOT HAZARD A GUESS ON THE PUBLIC SECTOR.) THE CBI'S PROJECTION ON OIL REVENUES AT \$20.5 BILLION IS CLOSE TO THE EMBASSY'S OF \$21.0 BILLION. THE EMBASSY SUSPECTS THAT WITHIN THE CURRENT ACCOUNT DATA AT LEAST ONE BILLION DOLLARS IS BURIED WHICH MIGHT BE IN VERY ROUGH TERMS DESCRIBED AS "CAPITAL FLIGHT." (SOME US COMMERCIAL BANK STUDIES PUT THE FIGURE AS HIGH AS TWO BILLION DOLLARS.) SOME OF THIS CAPITAL NO DOUBT WILL RETURN, SINCE IT'S FLIGHT WAS MOTIVATED BY WHAT CBI OFFICIALS CONSIDER TO BE TOMPORARY BUSINESSS UNCERTAINTIES CAUSED BY TEH GOI'S ANTI-PROFITEERING CAMPAIGN AND THE 49 PERCENT INDUSTRIAL EQUITY DIVESTITURE POLICY. THE NON-OIL EXPORT ESTIMATE MAY BE HIGH BY AS MUCH AS \$100 MILLION, OR ROUGHLY THE LEVEL OF LAST YEAR. VERY PRELIMINARY DATA FOR THE FIRST SEVEN MONTHS SHOW NON-OIL/NON GAS EXPORTS AT 5.9 PERCENT BELOW THE SAME PERIOD 1974/75.

5. THE SURPRISE INCREMENT IN THESE CBI BALANCE OF PAYMENTS DATA IS THE ADDITIONAL \$500 MILLION(OVER THAT REPORTED REFC) IN FOREIGN ASSISTANCE WHICH PUSHES THE DEFICIT BEYOND THE ONE BILLION DOLLAR LEVEL. THE REPAYMENT (DEBT SERVICE) ESTIMATE DOES NOT CONTAIN ANY PREPAYMENT. LAST YEAR'S PREPAYMENTS REPORTEDLY ELIMINATED ALL EXTERNAL DEBT CARRYING INTEREST ABOVE EIGHT(8) PERCENT. THE LONG-TERM INFOLW ESTIMATE OF \$300 MILLION SHOULD INCLUDE THE \$100 MILLION BORROWED BY THE PRIVATE INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN, \$30 MILLION BY IRANO-READING AND BATES, \$10 MILLION BY PARS BANK, PERHAPS \$80 MILLION (\$56 MILLION IN EURODOLLAR AND BALANCE IN GERMAN MARKS) BY CONFIDENTIAL

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INTERNATIONAL HARVESTER'S JOINT VENTURE (HEPCO) WITH THE INDUSTRIAL DEVELOPMENT AND RENOVATION ORGANIZATION AND POSSIBLY \$50 MILLION(IN DM'S) OF THE \$300 MILLION OFFSHORE LONG-TERM CAPITAL RAISING AUTHORIZED BY THE GOI'S INDUSTRIAL CREDIT BANK.

6. GOI CONTACTS CONSISTENTLY MAINTAIN IRAN WILL BE A NET LENDER FOR AT LEAST THE NEXT TWO YEARS, REFLECTING NO DOUBT PROJECTED DISBURSEMENTS AGAINST ITS CUMULATIVE \$12 BILLION DOLLARS OF COMMITMENTS IN FOREIGN ASSISTANCE. DR. SHIRAZI BELIEVES THE BASIC BALANCE OF NEXT YEAR'S BALANCE OF PAYMENTS WILL AGAIN SHOW OVER A BILLION DOLLARS DEFICIT WHEN SEEN APART FROM PLANNED LONG-TERM EXTERNAL BORROWINGS(PROJECT BORROWINGS ALMOST EXCLUSIVELY BY STATE BANKS AND ENTERPRISE) WHICH SHOULD REMOVE THE NNED TO FURTHER DRAW DOWN RESERVES. BY TEH CBI'S PROJECTION, NET INTERNATIONAL RESERVES WOULD STAND AT ABOUT

\$5 BILLION ON MARCH 20, 1976, LESS THAN FOUR MONTHS IMPORT COVERAGE. ONE WOULD THUS ANTICIPATE BORROWINGS AT SOME EARLY POINT FOR THE PURPOSE OF REBUILDING RESERVES. IRN'S ENTRY INTO THE CAPITAL MARKET AS A BORROWER IN 1976 COULD, UNFORTUNATELY FOR IRAN, COINCIDE WITH AN INCREASE IN NEW YORK AND EURODOLLAR INTEREST RATES, AS ANTICIPATED BY SOME JAFOR BANKS.

7. THE IMF MISSION (JOHN GUNTHER AND THREE OTHERS) TOLD EMBOFF IT LEFT WITH AN IMPRESSION OF THE ECONOMY, ESPECIALLY THE EXTERNAL ACCOUNT, LESS PESSIMISTIC THAN THAT PAINTED BY THE CBI. BY REJECTING THE CBI'S IMPORT PROJECTION FOR ONE OF \$15 TO \$15.5 BILLION, AND USING A LOWER-THAN-CBI-ESTIMATED OF OIL REVENUES OF \$19.5 BILLION, THE IMF TEAM FORESEES A BASIC BALANCE OF DEFICIT OF \$500 MILLION. WE SUSPECT THAT THE IMF'S CALCULATIONS ON THE EXTERNAL ACCOUNT DID NOT INCLUDE THE ADDITIONAL \$600 MILLION OUTFLOW FOR TURKEY. BY TAKING THAT INTO ACCOUNT THE DIFFERENCE NARROWS. THE IMF TEAM'S FIEST CUT OF GNP FROWTH FOR THE CURRENT YEAR UNDERSTATES THAT OF THE CBI. IT SEES GROWTH AT ABOUT 26 PERCENT AT MARKET PRICES, WITH A DEFLATOR OF ABOUT 12 PERCENTAGE POINTS. THIS COMPARES WITH A CBI GNP GROWTH PROJECTION OF 16 PERCENT IN CONSTANT PRICES WITH A FOUR OR FIVE PERCENT DEFLATOR.

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## Message Attributes

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